



Ranking Republican, Senate Agriculture and Rural Economic Development Committee

March 6, 2006

Dear Friends,

The 2006 legislative session is down to its final week. The Legislature has made lots of progress on several agriculture-related issues as it approaches the March 9 adjournment date.

Farm fuel tax exemption bill signed into law

One of the top priorities for Washington farmers was signed into law today by Gov. Gregoire. The Senate on Friday voted 44-4 to pass this measure that provides a tax exemption on farm fuel. The House later on Friday voted 97-1 to concur with the Senate's changes. Under **House Bill 2424**, diesel fuel used by farmers for nonhighway purposes will be exempt from sales and use taxes. The exemption will also cover diesel fuel used for soil preparation services and crop cultivation and harvesting services, as well as aircraft fuel sold to a farm user. The exemption does not cover fuel used for home heating.

This bill addresses a major issue for farmers throughout Washington. Last interim, when legislators went around the state to listen to the needs of the agriculture community, the high cost of farm fuel prices was identified as the number one issue whether you farmed in the Skagit Valley, Central Washington or the Palouse. Agriculture is an intensive user of diesel fuel. Unfortunately, as those prices have basically tripled in recent years, the tax tripled with it, placing an even greater burden on every producer in every corner of the state.

Strengthening family farms is part of legislative Republicans' '**Commitment to Washington**' agenda this session. This measure definitely will help family farms throughout our state. We need to take steps to make farming more profitable, and this measure is such a step. While prices for grain products have hardly changed over the years, expenses related to farming have increased substantially.

House Bill 2424 includes an emergency clause, so it immediately goes into effect. Every producer of every commodity in our state will get real help, and they get it now because this bill makes a very legitimate use of the emergency clause. Farmers and ranchers across the state are now ready to order their fuel if they haven't already, and with the governor's signature today, they will get that relief.

Legislature passes bill offering tax relief for farm machinery, equipment

The Legislature on Saturday approved a bill exempting farmers from the sales and use tax on replacement parts for farm machinery and equipment. The Senate passed its amended version of SHB 2457 on a 40-4 vote. The House later voted 95-0 to concur with the Senate's changes to the proposal. The tax exemption covers machinery and equipment designed for the purpose of growing, raising or producing agricultural products. This measure will provide real help to Washington farms. Farm prices have not kept up with increasing farming costs, so farmers often have been forced to make equipment last longer by repairing it instead of buying new equipment.

Biofuels bill clears House, goes back to Senate

The Senate's version of the renewable fuels bill (**ESSB 6508**) was passed 68-30 by the House last Wednesday. The bill was amended by the House, so the Senate must first concur with the changes before it goes to the governor.

Both proposals would implement a 2 percent biodiesel standard by 2008 or sooner if the feedstock needed to produce 2 percent biodiesel by volume can come from Washington farms and be crushed in-state. A 2 percent ethanol standard would go into effect in 2008 as well. SB 6508 includes a provision requiring state vehicles to use a 20 percent biodiesel blend beginning in 2009.

The measure requires that all gasoline sold in the state contain at least 2 percent ethanol, which comes from corn- or wheat-based fuel, and that 2 percent of all diesel sales comes from biodiesel by December 2008. This mandate could begin sooner if the feedstock needed to produce the 2 percent biodiesel volume can come from Washington farms. The mandate rises to 5 percent if at least 3 percent comes from in-state farms and is crushed in Washington.

This bill could greatly help farmers who grow canola, mustard seed, corn and wheat or other crops that can be turned into biofuel. In addition, it could provide a boost to Washington's biodiesel producers. Biodiesel is better for the environment than regular diesel, so the bill could help improve Washington's air quality. In recent months, there has been growing consensus that America needs to become energy independent, and this bill would help us down that path.

Although I think this legislation potentially has strong benefits for Washington's agriculture, economy and environment, many people – including myself – have had concerns about this bill. One worry was the government mandating a certain percentage of biodiesel, which might cause fuel prices to rise at a time when farmers already have to cope with higher fuel costs. Another concern is whether farmers are given the right incentives to produce enough of the crops needed to make these mandates a reality. We can only hope that the measure produces the positive effects envisioned by proponents while minimizing the drawbacks mentioned during committee hearings this year.

House passes key bill for Columbia River water management plan

When the Legislature passed and the governor signed into law a measure (**E2SHB 2860**) last month creating a new Columbia River water management plan, it was rightfully considered a landmark achievement. It will result in a long-overdue expansion of Washington's water delivery system that will protect and enhance our state's agriculture industry.

However, that water bill will not go into effect if the promised funding for this bill doesn't arrive. Fortunately, a key funding mechanism for the water management plan took one major step closer to being signed into law. The House last Tuesday passed **ESHB 3316**, which includes \$200 million in bonding authority for the Columbia Basin Water Supply Development Account. ESHB 3316 is now before the Senate. Another \$20 million has been appropriated by the Legislature for this account.

Unemployment insurance compromise bill clears Legislature

The Senate Friday voted 44-2 to pass a key measure (**ESSB 6885**) that makes permanent changes in the way in which unemployment benefits are calculated. The House passed the bill 97-1 Thursday night, so it now goes to Gov. Gregoire.

The compromise measure was hammered out after days of negotiations between Sens. Linda Evans Parlette and Jeanne Kohl-Welles, and Reps. Steve Conway and Cary Condotta. The bill retains the two-quarter averaging system temporarily put in place in 2005 as the basis for determining benefits.

The bill includes these provisions:

- Agriculture and food processing in all classes will pay only their own experience tax and no social tax for 2006 and 2007, with a maximum tax of 5.4 percent of payroll. Agriculture and food processing would begin paying both the experience and social tax in 2008, but will pay a maximum tax of 5.7 percent of payroll.
- Workers will receive benefits based on the two highest quarters of earnings in the benefit year, while employers will pay taxes based on the average of four quarters of wages (four-quarter averaging).
- All employers will benefit from reductions to the social tax triggered when the trust fund balance reaches 12 months of reserve funds. Agricultural employers can expect a social tax of less than 1 percent of payroll when they begin paying it in 2008.
- The state Department of Employment Security must look into the issue of repeat episodes of unemployment, enhanced job search requirements, employer turnover and the prevention of corporate fraud.

Senate approves appointment of WSU's Professor Cook to Life Sciences Discovery Fund's board of trustees

The Senate today approved the appointment of Washington State University professor R. James Cook as a member of the board of trustees for The Life Sciences Discovery Fund Authority.

Professor Cook is one of WSU's most honored research scientists, particularly in the areas of plant pathology and biotechnology. In 1993, he was named to the National Academy of Sciences, one of the highest awards for an American scientist. That same year, Jim received the USDA Distinguished Service Award and was made an honorary member of the British Society for Plant Pathology. He currently serves as interim dean of WSU's College of Agriculture and Home Economics.

He now holds the R. James Cook Endowed Chair in Wheat Research, established in 1998 by the Washington Wheat Commission. This chair was created to strengthen research and graduate education in the plant, soil and microbiological sciences at WSU.

I think Jim Cook's appointment adds great credibility to the Life Sciences Fund. He is as comfortable with his hands in the dirt as he is in the laboratory, the classroom or a board room. His appointment ensures that agriculture will have a respected voice on the Life Sciences board.

Both capital budget plans include WSU Biotech/Life Sciences Building

Both the Senate and House supplemental capital construction budgets include funding for a key building project on Washington State University's Pullman campus.

The Senate capital budget (**ESSB 6384**) includes a \$63 million "certificate of participation" (COP) authorization for construction of the WSU Biotech/Life Sciences Building. The COP will be paid for with interest earning from WSU's permanent funds. The capital budget as amended by the House provides \$10 million in state bonds to get the project started.

A new Life Sciences Building has been a top priority for the Pullman campus, as well as a key issue for higher education and for the agriculture and bioscience industries in Washington.

Efforts continue to revive PCC Railroad

There are ongoing efforts in the Legislature to reopen the Palouse River and Coulee City Railroad, which includes several key rail sections that are used for shipping wheat. The House this week passed an amendment to the House supplemental transportation budget that would help reopen the PCC Railroad. The amendment, sponsored by my 9th Legislative District seatmate, Rep. David Buri, would allow the state to negotiate an agreement with the railroad's owners to forgive all or part of the existing rail-assistance loan.

The rail line is a critical transportation link for farmers and growers, and a key component of long-range plans for Eastern Washington's economic development.

Over the past several months, wheat farmers in much of Eastern Washington have been caught in the middle of a battle between the state Department of Transportation (DOT) and Watco, a Kansas-based company, over the fate of the PCC Railroad.

In 2003, the Legislature agreed to buy and renovate three key sections of this 372-mile railroad. The state in November 2004 paid \$6.5 million to buy the "P&L Branch," which runs north and south between Marshall and Pullman, and the "PV Hooper Branch," a line linking Hooper, Winona, Thornton, Colfax and Pullman. Unfortunately, the DOT failed to buy the 108-mile "CW Branch," which runs between Coulee City and Cheney. (The Legislature allocated \$1.2 million for this line.) Watco and DOT had a verbal agreement on the sale of this branch, but there was no signed agreement. Now, Watco is asking much more money for this stretch than it did previously. In November, the railroad closed down that line.

In the meantime, wheat farmers have been forced to pay a \$250 surcharge for every rail car shipped on the P&L Branch. That surcharge jumped up to \$870 in early January. This is way too expensive for wheat farmers to handle. As a result, farmers have been forced to ship their wheat by truck, which has damaged roads.

House amends, passes "Odessa aquifer bill"

The House Friday voted 96-2 in favor of its amended version of **SSB 6151**, a bill I prime-sponsored that eases water relinquishment rules for the Odessa aquifer region. This bill is very much needed to ensure farmers in this area have the tools to deal with the rapidly declining aquifer.

This proposal gives irrigators in the Odessa aquifer sub-area (as mapped in state code) a "time out" from the statutory five-year "use-it-or-lose-it" provision in order to encourage maximum water conservation until the surface water resulting from the second half of Columbia Basin Project is delivered. Doing so would save water for municipal water users and domestic wells. The bill has a sunset date of July 1, 2021, unless water from the Columbia River management plan reaches those affected by the depleted aquifer before this date.

The bill as amended by the House requires water right holders to notify the Department of Ecology in writing within 180 days of the decision to suspend water use, requires notification for the choice to discontinue nonuse, and specifies that the proposal doesn't exclude other laws regarding the non-use of water.

Legislature passes Beer Commission bill

Beer drinkers can rejoice. The Legislature has passed a measure creating a Washington Beer Commission. The Senate Saturday voted unanimously to concur with the House's changes to the bill (**ESB 6661**) establishing a beer commission. The bill now goes to the governor.

The bill as amended by the House establishes the commission subject to referendum approval by affected beer producers. The altered bill also prescribes the commission's membership, responsibilities, authorities and obligations.

Having a beer commission will help raise awareness of Washington's beer industry both here and outside the state. Washington has an excellent hop-producing industry that supplies hops to beer makers throughout the world. Washington is where the microbrewery craze began, and our state's microbrewers continue to come up with new types of beer.

Raw milk bill passes Legislature

The Senate voted unanimously last Saturday to concur with the House's amendments to **SSB 6377**, known as the "raw milk bill." The amended measure, passed 88-10 by the House on March 1, makes it unlawful to operate as a milk producer or milk processing plant without obtaining a license from the Department of Agriculture, or to sell raw milk from a dairy farm that is not

licensed in such a way. Under the proposal, it is a misdemeanor to sell raw milk from a dairy farm that is not licensed as a milk producer or milk processing plant. It is a gross misdemeanor for second and subsequent offenses of this law.

The bill also calls for the Department of Agriculture to convene a work group to identify barriers, solutions, best management practices and other ways to help small-scale dairies become licensed. The work group and DOA are required to report to the House and Senate agriculture committees by Dec. 1, 2006, on their recommendations.

Farm plans bill sent to governor

The Senate on Saturday voted unanimously to concur with the House amendments to **SSB 6617**, which deals with the contents of farm plans prepared by conservation districts. The House passed its amended version 98-0 on March 1. Under the bill as changed by the House, a conservation district, before preparing a farm plan, must inform the land owner or operator in writing what types of information must be disclosed to the public. Before a final draft of the farm plan is completed, the conservation district must send it to the land owner or operator for verification of the information. The final plan may not be disclosed by a district until the requesting owner or operator confirms the information within the plan and a signed copy is received by the district. Under the measure, plans developed under certain state water pollution control provisions that are not subject to the federal Clean Water Act are subject to specific dairy and animal feedlot disclosure requirements.

Minimum wage study bill dies in House

A measure (**ESSB 5551**) requiring the Washington State Institute for Public Policy to study the state's minimum wage system and its impacts on several issues won't pass in the Legislature this year. The House Commerce and Labor Committee held a public hearing on the proposal but didn't vote on it.

Since the state's escalating minimum wage system was approved by Washington voters in 1998, many farmers and producers have struggled due to higher operating costs associated with these annual wage hikes. The state's minimum wage this year \$7.63 an hour, once again the highest rate in the nation. It's also 50 percent higher than most states. In 1999, immediately after the minimum wage law was passed by voters, the rate was \$5.70 per hour.

Washington's minimum wage forces wages to all other wage scales, which makes it harder for farmers to make a decent profit and employ workers. A study would have allowed everyone interested in this issue to realize the economic impact of Washington's minimum wage law. It's very unfortunate that such a study has been pushed aside for at least another year.

Tax exemption for farming services fails in House

After passing in the House Finance Committee, **2SSB 6542** may have died in the House Rules Committee. The measure would enact a B&O tax exemption for services provided to a farmer in growing, raising or producing agricultural products to be sold.

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